

Tenneco Inc.(TEN)

\$10.47 (As of 02/17/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

The company's focus on innovation, quality and performance across all business segments bodes well. The planned spin-off of spin-off DRiV is likely to aid the firm focus sharply on the business and benefit from synergies. Also, Tenneco's efforts of streamlining its operations and capacity consolidation are positives. However, Tenneco forecasts drop in light-vehicle production along with a slight decline in commercial vehicle markets which will negatively affect its upcoming results. As such, it has revised down its sales and profit guidance for 2019, dampening investors' confidence. Further, high cost of raw materials along with increasing SG&A expenses are clipping the firm's margins and the trend is likely to continue. Moreover, high debt-to-capital ratio of 70% limits growth.

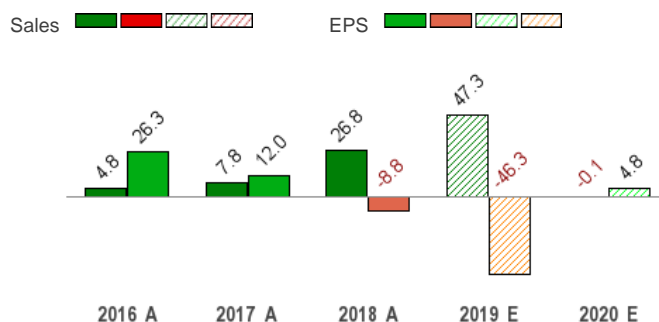
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.27 - \$7.62
20 Day Average Volume (sh)	963,746
Market Cap	\$598.2 M
YTD Price Change	-20.1%
Beta	2.41
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 40% (152 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.8%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-13.9%
Expected Report Date	02/20/2020
Earnings ESP	-13.8%
P/E TTM	2.5
P/E F1	3.0
PEG F1	NA
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,479 E	4,560 E	4,255 E	4,335 E	17,306 E
2019	4,484 A	4,504 A	4,319 A	3,987 E	17,329 E
2018	2,574 A	2,537 A	2,372 A	4,278 A	11,763 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.58 E	\$1.12 E	\$0.91 E	\$0.64 E	\$3.53 E
2019	\$0.52 A	\$1.20 A	\$1.23 A	\$0.42 E	\$3.37 E
2018	\$1.58 A	\$1.92 A	\$1.70 A	\$1.30 A	\$6.28 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/17/2020. The reports text is as of 02/18/2020.

Overview

Tenneco Inc., headquartered in Lake Forest, IL, is a leading designer, manufacturer and supplier of clean air, powertrain and ride performance products and systems caters to light vehicle, commercial truck, off-highway, industrial and aftermarket customers. The company's products can be used in light vehicle, commercial truck, off-highway, industrial and aftermarket customers. Few of Tenneco's brands are- Monroe, Champion, Ohlins, MOOG, Walker, Fel-Pro, Wagner, Ferodo, Rancho, Thrush, National, and Sealed Power, among others.

As of Dec 31, 2018, Tenneco operates 210 manufacturing facilities, with around 81,000 employees across the globe.

Tenneco has the following operating segments:

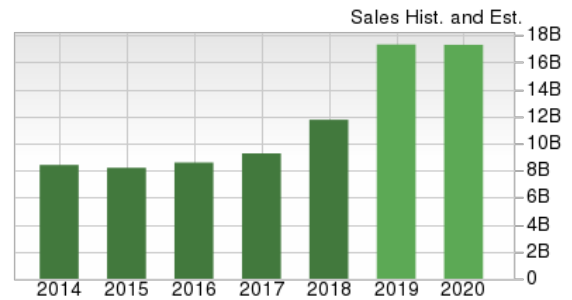
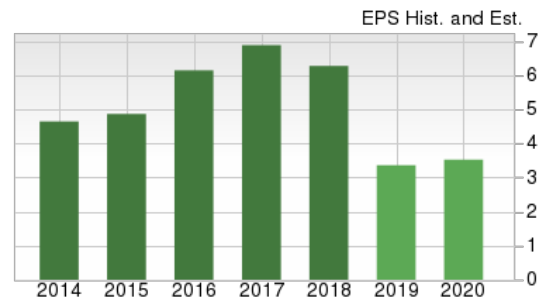
Clean Air (57% of revenues in 2018) – The segment offers products that reduce emissions. Being a leading supplier, Tenneco's clean air systems have advanced technologies to benefit the changing environmental standards. The unit has 17 facilities in North and South America, 20 in Europe, and 27 in the Asia Pacific. Further, Tenneco operates 16 production hubs through joint ventures in the Asia Pacific region.

Ride Performance (16.6%) – The unit produces shock absorbers and struts, NVH performance materials that reduce noise, vibration and harshness, and suspension systems. The segment has 10 hubs in North and South America, seven in Europe and South Africa, and eight in the Asia Pacific.

Aftermarket (10.4%) – It sells ride control parts, involving a broad range of mechanical shock absorbers and related components, NVH performance materials, and emission control devices. The unit has five hubs across the globe that includes two in North America, one in Europe and two in the Asia Pacific.

Powertrain (9.4%) – The unit produces pistons, piston rings, piston pins, cylinder liners, valvetrain products and valve seats, among others required for OE applications. The unit has 85 manufacturing sites in 19 countries.

Motorparts (6.6%) – The unit offers products and systems that enhance safety, durability, and performance of vehicles. Few of the products include- chassis, braking, sealing and engine, among others.



Reasons To Buy:

- ▲ The company's diverse business segments is likely to aid organic growth. Also, the company's focus on innovation, quality and performance across all business segments is adding to its growth momentum.
- ▲ After the acquisition of Federal-Mogul, Tenneco has been working on spinning off its existing merged entity in two separate businesses. Expected to occur by mid-2020, the DRiV spin-off will comprise Tenneco's existing Motorparts and Ride Performance segments. The planned spin-off will aid new Tenneco and its spin-off DRiV to focus more on the business and benefit from synergies.
- ▲ Tenneco is also indulging in restructuring activities that include streamlining of operations, consolidate available capacity and resources, which will likely to reduce net costs for the company. In sync with its strategy, the company is relocating plants in China and consolidating footprint in North America. Although it is costly undergoing thorough the process, the restructuring is likely to benefit Tenneco in the long term.

Tenneco's focus on innovation, quality and performance across all business segments is adding to its growth momentum.

Reasons To Sell:

- ▼ The company has been bearing the brunt of high operating expenses since the past several quarters. High cost of raw materials along with increasing SG&A expenses are clipping the firm's margins and the trend is likely to continue. Operational inefficiencies related to manufacturing footprint actions, which are underway in North America and China for the Ride Performance segment, have hampered profits of Tenneco's DRiV. Moreover, high debt-to-capital ratio of 70% further restricts Tenneco's financial flexibility to tap on growth opportunities.
- ▼ Tenneco forecasts drop in light-vehicle production along with a slight decline in commercial vehicle markets which will negatively affect its upcoming results. As such, it has revised down its sales and profit guidance, dampening investors' confidence. The firm now expects its sales to be in the band of \$17.25-\$17.35 billion, down from the prior forecast of \$17.6-\$17.8 billion. Adjusted EBITDA is expected to range within \$1.42-\$1.44 billion, down from the previous view of \$1.51-\$1.56 billion.
- ▼ Pricing pressure from OEMs remains a problem for Tenneco. The company largely depends on a few customers in the OEM segment, including General Motors and Ford (which accounted for 24% of net sales in 2018 in total). In fact, Tenneco expects 6-week long GM-UAW strike to negatively impact its EBITDA by \$35 million in the fourth quarter of 2019.

High operating costs and elevated leverage are causes of concern.

Last Earnings Report

Tenneco Tops Q3 Earnings & Revenue Estimates

Tenneco posted third-quarter 2019 results, wherein adjusted earnings per share of \$1.23 beat the Zacks Consensus Estimate of 97 cents, aided by stellar top-line growth in its Clean Air, Ride Performance and Motorparts divisions. However, the reported figure came in lower than the prior-years' \$1.66.

In the third quarter, Tenneco's adjusted net income came in at \$99 million compared with the \$85 million recorded in third-quarter 2018.

The company's quarterly revenues soared 82% year over year to \$4,319 million, mainly aided by higher light vehicle, off-highway and other revenues. Also, the revenue figure surpassed the Zacks Consensus Estimate of \$4,280 million. On a constant-currency basis, revenues were up 3%, year on year. Light-vehicle industry production declined 3% in the quarter.

Adjusted EBITDA (income before interest expenses, income taxes, non-controlling interests and depreciation, and amortization) was \$387 million compared with the \$366 million recorded in the prior-year quarter.

Segmental Results

The Clean Air division's third-quarter revenues were \$1.77 billion compared with the year-earlier figure of \$1.6 billion.

Revenues in the Ride Performance division came in at \$671 million compared with the \$461 million recorded in the year-ago quarter.

The Powertrain division's third-quarter revenues summed \$1.08 billion.

The Motorparts division's revenues were \$794 million, significantly up from the \$308 million generated in third-quarter 2018.

Financial Position

Tenneco had cash and cash equivalents of \$389 million as of Sep 30, 2019, down from \$697 million as of Dec 31, 2018. Long-term debt was \$5.41 billion as of Sep 30, 2019, compared with \$5.34 billion as of Dec 31, 2018. The debt-to-capital ratio stands at 77.23%.

Outlook

For the fourth quarter of 2019, the company expects revenues in the range of \$3.95 billion to \$4.05 billion. Further, adjusted EBITDA is projected at \$295-\$315 million.

Tenneco has revised its guidance for full-year 2019. It expects revenues of roughly \$17.25-\$17.35 billion and adjusted EBITDA between \$1,425 million and \$1,445 million.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.91%
EPS Surprise	26.80%
Quarterly EPS	1.23
Annual EPS (TTM)	4.25

Valuation

Tenneco's shares are down 20.1% in the year-to-date period and down 70.9% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 1.6% and up 5.9%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 4% and 16.9%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and 23.5% in the past year.

The stock is currently trading at 2.92X forward 12-month earnings, which compares to 13.09X for the Zacks sub-industry, 11.5X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.44X and as low as 1.75X, with a 5-year median of 8.05X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$11 price target reflects 3.05X F12M.

The table below shows summary valuation data for TEN:

Valuation Multiples - TEN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	2.92	13.09	11.5	19.35
	5-Year High	12.44	13.46	11.75	19.35
	5-Year Low	1.75	8.52	8.23	15.18
	5-Year Median	8.05	11.61	9.93	17.47
EV/EBITDA TTM	Current	4.26	6.17	8.97	12.31
	5-Year High	7.27	8.66	11.25	12.85
	5-Year Low	3.46	4.63	6.9	8.47
	5-Year Median	5.6	6.62	9.2	10.7
P/S F12M	Current	0.03	0.64	0.7	3.58
	5-Year High	0.44	0.81	0.76	3.58
	5-Year Low	0.03	0.49	0.5	2.54
	5-Year Median	0.31	0.65	0.62	3

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (152 out of 255)



Top Peers

Allison Transmission Holdings, Inc. (ALSN)	Neutral
American Axle & Manufacturing Holdings, Inc. (AXL)	Neutral
BorgWarner Inc. (BWA)	Neutral
Johnson Controls International plc (JCI)	Neutral
Lear Corporation (LEA)	Neutral
Magna International Inc. (MGA)	Neutral
Cummins Inc. (CMI)	Underperform
Meritor, Inc. (MTOR)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	TEN Neutral	X Industry	S&P 500	AXL Neutral	MGA Neutral	MTOR Underperform
VGM Score	B	-	-	A	A	D
Market Cap	598.19 M	701.85 M	24.61 B	986.41 M	15.54 B	1.89 B
# of Analysts	4	2.5	13	6	6	3
Dividend Yield	0.00%	0.00%	1.78%	0.00%	2.85%	0.00%
Value Score	A	-	-	A	A	B
Cash/Price	0.71	0.11	0.04	0.34	0.05	0.06
EV/EBITDA	8.58	4.69	14.06	3.84	3.96	5.15
PEG Ratio	NA	1.17	2.09	0.52	1.32	NA
Price/Book (P/B)	0.33	1.40	3.29	0.70	1.45	4.93
Price/Cash Flow (P/CF)	0.83	5.09	13.65	0.71	4.44	5.07
P/E (F1)	2.85	10.85	19.21	4.21	7.95	9.31
Price/Sales (P/S)	0.03	0.45	2.70	0.15	0.39	0.45
Earnings Yield	33.72%	8.21%	5.19%	23.72%	12.59%	10.74%
Debt/Equity	2.94	0.51	0.71	2.61	0.28	2.35
Cash Flow (\$/share)	12.56	3.65	6.92	12.39	11.55	5.05
Growth Score	B	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	4.80%	8.47%	10.85%	-0.04%	9.38%	27.23%
Proj. EPS Growth (F1/F0)	4.83%	6.56%	7.17%	28.50%	7.89%	-28.01%
Curr. Cash Flow Growth	19.10%	1.90%	8.56%	68.32%	6.78%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	10.36%	9.98%	8.36%	34.69%	17.78%	19.94%
Current Ratio	1.37	1.56	1.23	1.78	1.21	1.20
Debt/Capital	75.12%	37.82%	42.91%	72.27%	21.74%	70.12%
Net Margin	-0.74%	3.46%	11.81%	-5.77%	4.43%	5.65%
Return on Equity	18.48%	14.34%	16.86%	14.79%	17.59%	71.38%
Sales/Assets	1.31	1.30	0.54	0.91	1.49	1.51
Proj. Sales Growth (F1/F0)	-0.90%	0.24%	3.85%	-8.46%	-0.56%	-15.39%
Momentum Score	F	-	-	A	C	F
Daily Price Chg	0.38%	-0.36%	0.06%	-14.19%	-1.63%	0.00%
1 Week Price Chg	3.27%	0.23%	2.47%	4.87%	0.30%	11.73%
4 Week Price Chg	-1.97%	-5.03%	0.59%	-8.46%	-5.37%	1.63%
12 Week Price Chg	-9.74%	-1.14%	6.98%	-7.59%	-4.72%	6.44%
52 Week Price Chg	-69.38%	-1.65%	16.62%	-40.34%	-0.45%	21.61%
20 Day Average Volume	963,746	185,712	2,020,569	1,241,579	570,517	1,560,269
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-13.89%	0.00%	-0.05%	-3.63%	0.03%	-1.79%
(F1) EPS Est 12 week change	-19.58%	-2.17%	-0.17%	0.00%	-0.44%	-2.37%
(Q1) EPS Est Mthly Chg	-27.50%	0.00%	-0.24%	0.00%	0.63%	-9.58%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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